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ENERGY DEPARTMENT FOR S.EULE - CLIMATE CHANGE PROGRAM

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SUBJECT: BRAZIL: FRANK DISCUSSION ON CLIMATE CHANGE

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**¶1.** (U) THIS CABLE IS SENSITIVE BUT UNCLASSIFIED AND NOT FOR INTERNET DISTRIBUTION.

**¶2.** (SBU) SUMMARY. In a frank and wide ranging conversation, Director of the National Economic Council Al Hubbard, Deputy National Security Advisor Dan Price, and Ambassador Clifford Sobel met in Brasilia on October 11 with Brazilian Ministry of Exterior Relations (MRE) Under Secretary for Policy Everton Vargas and Brazilian Ambassador to the United States Antonio Patriota to discuss climate change. Hubbard expressed unhappiness on Vargas' public statements on the Major Economies Meeting (MEM). He noted that the United States was prepared to work cooperatively on a post-2012 international framework based on five elements laid out at the MEM. Vargas said that the new framework must be a continuation of the Kyoto Protocol.

**¶3.** (SBU) In response to a question from Price, Vargas said that even if the United States were willing to accept internationally legally binding caps on emissions, Brazil would not be, even if the obligations or quantities were different. Vargas said that under the terms of the UN Framework Convention on Climate Change (UNFCCC), Brazil would only be willing to accept a commitment on greenhouse gas emissions that would be binding domestically. Vargas said that this inconsistency was necessary because of the UNFCCC framework, and any change would require revising this framework. Price noted that the UNFCCC did not pose an obstacle to developing countries taking legally binding commitments if the political will was there, and that this was just a drafting issue. END SUMMARY.

¶4. (SBU) On October 11, the Director of the National Economic Council, Al Hubbard, Deputy National Security Advisor Dan Price, and Ambassador Clifford Sobel met in Brasilia with Brazilian Ministry of Exterior Relations (MRE) Under Secretary for Policy Everton Vargas and Brazilian Ambassador to the United States Antonio Patriota to discuss climate change. Hubbard and Price were in Brazil in connection with the CEO Forum (SEPTEL). COMMENT. Vargas plays a key role as the Government of Brazil's (GOB) lead negotiator on climate change, personal representative of President Lula to the "Major Economies" process, and the sherpa for Brazil in the G-8 setting. END COMMENT.

#### U.S. VIEW ON ADDRESSING CLIMATE CHANGE

¶5. (SBU) Hubbard provided the U.S. perspective on the Major Economies Meeting (MEM) on energy security and climate change, which took place in Washington September 27-28. (REFTEL A) Hubbard said the MEM fulfilled President's Bush's plan for a next step in addressing climate change, which was announced in June at the G-8 meeting in Heiligendamm, Germany. The United States recognizes that CO2 is a problem that needs to be addressed, and that needs to be addressed globally. Hubbard underscored that if the United States alone halted its CO2 emissions completely it would have virtually no impact on global CO2 levels. This is why we need a global solution with the participation of all the "major emitters" and why we organized the MEM. It will take time and conversation to put a global solution together.

¶6. (SBU) Hubbard said transformational technology is needed to solve this problem. This is why the U.S. Government (USG) is

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committing billions of dollars to research and development of clean technologies, which we will share with the world. Moreover, we believe that there are many existing clean technologies that can make a contribution and these should be traded freely.

¶7. (SBU) Hubbard said that a mandatory cap on CO2 emissions is a non-starter. A cap that excludes major countries would not be politically acceptable in the United States, and further it would not have a significant effect. He pointed out that the Europeans have had less success than the United States in controlling CO2 emissions. The USG is careful about the commitments it takes on because when the United States makes a commitment, we fully intend to fulfill it. Hubbard added that imposing mandatory CO2 emissions would constrain the U.S. economy, and what the world needed was strong economic growth to support efforts to deal with climate change.

¶8. (SBU) Price elaborated saying the USG at the MEM laid out the five core elements for a post-2012 world: (A) agreement on a long-term global goal; (B) agreement on medium-term goals to be implemented by national plans which may have binding elements and may use market mechanisms; (C) common measurement tools; (D) a financing mechanism to accelerate use of existing technologies; and (E) research focused on adaptation and mitigation, including reducing deforestation and reforestation. We want to build consensus on a few principles, such as no "free riders" which isn't different from the "common, but differentiated responsibilities" principle found in the UN Framework Convention on Climate Change (UNFCCC). Price made clear that the USG thought that a multilateral regime was worth pursuing and we were doing so.

#### WORKING WITH BRAZIL

¶9. (SBU) When President Bush met with Brazilian President Lula in New York in September, there was a good feeling on collaboration on climate change and on the Doha Round of the World Trade Organization (WTO), Price related. That spirit at the top should be reflected on both sides elsewhere in the two governments, he said.

¶10. (SBU) Hubbard told Vargas that his public comments weren't helpful. Saying that the United States is not doing anything does not help reach a solution. (REFTEL B) He added that if we truly want to address CO2, rather than play to headlines, technology is

the only solution. So the focus needs to be on accelerating technology development. He said, at some time, each country will have its own goals, though meeting those goals will depend on using effective technologies. Hubbard noted that it will be healthier and more productive if we could work collaboratively and don't use the press to make unnecessary attacks on the United States or others. Price added that there may be differences between our two countries, but it is not helpful to attack the United States for not taking on the commitments in the Kyoto Protocol.

#### VARGAS EXPLAINS THE GOB POSITION

¶11. (SBU) I'll be frank, Vargas began. He said that he hadn't attacked the United States but rather gave Brazil's impression of the MEM. He later added, "We can do things together, but on some issue we can't be silent." Brazil - and others - thought that at the MEM we would see the USG move to show willingness to work toward a multilateral regime on climate change. This didn't happen, he

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said. Vargas bristled at the use of the term "major emitters" with regard to Brazil, stressing that the meeting was of the "Major Economies." He later returned to the topic, saying that he is not negotiating through the press and that Brazil is ready to work with us.

¶12. (SBU) Vargas outlined his view of the post-2012 regime. He said it is essential that the United States is part of the post-2012 multilateral regime under the UNFCCC, if that new regime is to succeed. Of course technology is important, he said, which is why the GOB is joining with the USG in promoting the use of ethanol. Technology is not the only way, he said, we need to put the principle of "common, but differentiated responsibilities" to work. This means using mandatory, not voluntary goals, and we need a review of our achievements on efforts to reduce greenhouse gas emissions. President Lula said in Heiligendamm that Brazil expects to see a second commitment period for Kyoto Protocol commitments. The United States must take a leadership role and take the bold step of participating as part of this second round of Kyoto Protocol commitments. For Brazil's part, he said, we are prepared to make deeper - voluntary - cuts in emissions from deforestation and promote better energy efficiency.

¶13. (SBU) Brazil under the UNFCCC does not have to - and will not - take on commitments that will hurt its economy. Vargas said he had stressed to Under Secretary Paula Dobriansky during her visit to Brazil in May (REFTEL C) that President Lula stated we won't sacrifice economic growth, and what we need is to use different production and consumption patterns. If Brazil takes on commitments, this could adversely affect its competitiveness in the global economy. He stated, "We can't lose competitiveness."

¶14. (SBU) With regard to the MEM process, Vargas said that it would be difficult to go along with the U.S. idea of developing a backbone for the UNFCCC negotiations through MEM. Brazil couldn't be part of an effort to impose a solution on other countries in the UNFCCC.

¶15. (SBU) Vargas responded to the key points raised by Hubbard and Price. He said:

-- The good spirit between the two presidents wasn't reaching other areas. Specifically, the GOB sees very little progress on lifting the U.S. tax on ethanol. (Subsequently, Hubbard explained that the ethanol tariff is meant to counterbalance the 51 cents per gallon subsidy to ethanol producers. The United States is not going to give a subsidy to non-U.S. ethanol.)

-- A funding mechanism is not as important as how it is going to be funded. The GOB has suggested various ideas on funding, but we find resistance from the industrialized countries.

-- Trade barriers to clean technologies cannot be solved in isolation, they need to be part of the WTO Doha Round negotiations.

-- One of the biggest barriers to technology transfer is intellectual property rights (IPR). "Can we be more flexible on IPR

rules to deal with climate change?" he asked. (Hubbard replied that weakening IPR would be the best way to assure that no new technologies are developed. It would kill the goose that lays the golden egg, by removing incentives to innovate.)

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¶16. (SBU) Vargas identified several areas where the USG and GOB should cooperate:

-- Deforestation. Brazil has made a proposal to create international financial incentives to reduce the rate of deforestation. Vargas said the GOB was waiting for a response from the USG to their proposal.

-- Clean Development Mechanisms (CDMs). Vargas noted that the USG and GOB has played a critical role in developing this concept and now should work together in implementing it. Brazil has proposed a fund to support CDMs.

- Roadmap from Bali. He urged the USG to work with the GOB on developing a "roadmap" to come out of the UNFCCC Conference of the Parties in Bali in December. Such a roadmap could be helpful with the MEM process. (Hubbard and Price replied that we have a "roadmap" on climate change; it is what President Bush proposed back in June for developing a long-term global goal.)

#### BRAZIL'S FUNDAMENTAL POSITIONS

¶17. (SBU) The frank discussion clarified the GOB's fundamental positions in the climate change debate:

-- UNFCCC MEANS THAT BRAZIL CANNOT ACCEPT MANDATORY EMISSIONS OBLIGATIONS, BUT THE UNITED STATES MUST DO SO. Vargas stated that the UNFCCC principle of "common, but differential responsibilities" means that Brazil and other developing countries can take on binding national measures, but not international commitments. Even if hypothetically the USG assumed mandatory obligations, Vargas stated that Brazil would not do so, even if the obligations or quantities were different. He said setting a long-term global goal, as envisioned in the MEM process, would not satisfy the obligation in the UNFCCC on industrialized countries. On the other hand, the only commitments that Brazil and other developing countries had under the UNFCCC were to submit reports and a vague obligation to protect carbon "sinks". That said, he noted Brazil was prepared to take additional voluntary steps, such as improving domestic energy efficiency and promoting the use of biofuels.

-- BRAZIL WOULD NOT AGREE TO BE ADDED TO UNFCCC'S ANNEX I. To take on international commitments, which industrialized countries must accept, Brazil would have to be added to the list in Annex I (or industrialized countries), Vargas explained. That would be a "MAJOR PROBLEM" for Brazil if it did so, he declared. (COMMENT. Price replied that if Brazil took such a step it would be a "MAJOR STEP FORWARD". END COMMENT.) The UNFCCC formula cannot be annulled, Vargas stressed. Price responded that the UNFCC did not pose an obstacle to developing countries taking legally binding commitments if the political will was there, and that this was just a drafting issue.

-- MUST ACKNOWLEDGE HISTORIC EMISSIONS. While not disagreeing that China will become the leading CO<sub>2</sub> emitter, Vargas declared that for reasons of equity and fairness any limits should take into account "historic" or cumulative levels and not just current ones. He would not agree that China or India needed to accept international mandatory obligations, but did agree that we needed to "deal with China."

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-- THE UNITED STATES COULD ACCEPT MANDATORY LIMITS WITHOUT IMPAIRING ITS ECONOMIC GROWTH. Vargas said he recognized that no U.S. leader would accept obligations that impeded U.S. economic growth, but persisted in calling on the United States to participate

in a second round of commitments under the Kyoto Protocol. He squared the circle by baldly declaring that he could not believe that accepting mandatory obligations would hurt the U.S. economy.

-- NO ILLUSIONS ABOUT NEGLIGIBLE IMPACT ON CO2 LEVELS BY A SECOND ROUND OF COMMITMENTS UNDER KYOTO PROTOCOL. In response to Hubbard, Vargas admitted that he had "no illusions" about the ability of a second round of commitments to make a significant impact on CO2 levels other than a draconic regime that shut down the world economy. He explained that the real value of the Kyoto Protocol lay in giving cover to countries to take some steps to reduce their CO2 emissions.

#### SEARCH FOR COMMON GROUND

¶18. (SBU) Amb. Sobel underscored the USG interest in working together with the GOB. He said we need to find common goals, addressing the climate change problem while protecting economic growth. Vargas said that Brazil was ready to continue dialogue always keeping in mind the principle of common, but differentiated responsibilities found in the UNFCCC. Price and Vargas concluded the meeting saying, "We understand each other."

#### OTHER ATTENDEES

¶19. (U) The other attendees on the USG side were NSC John Cobau, NSC Gary Tomasulo, State WHA/EPSC Director Lisa Kubiske, ESTH Counselor Rick Driscoll, and Deputy ECON Counselor Tim Hall. For the GOB side, the other MRE attendees included the Director of the Department of Environmental and Special Issues, Luiz Alberto Figueiredo Machado, the Chief of the Environmental Policy and Sustainable Development, Rafael Azeredo (and his assistant Paulo Chiarelli), the Chief of the Renewable Energy Division, Claudia Santos, the Special Ambassador for Climate Change, Sergio Serra, and the Chief of the U.S. and Canada Division Joao Tabajara.

SOBEL